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The government in
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Through the President's Office

THE GOVERNMENT IN BUSINESS

An address by
GEORGE E. ROBERTS, Vice-President
of
THE NATIONAL CITY BANK OF NEW YORK



Established in 1812

Before the Clearing House Section.
AMERICAN BANKERS ASSOCIATION
ATLANTIC CITY
September, Twenty-fourth, Nineteen Twenty-three

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The Government in Business

THE world is gradually recovering from the disorganization and losses inflicted by the war, but beside these results the war has left a legacy of ideas which are only slowly overcome. The war itself was tremendously costly, but it is scarcely too much to say that the losses from the general demoralization existing since the war have been greater than the direct cost of the war. All of the disorder and confusion has not been due to the war; there was a lot of disorder and confusion in industry before the war. There had been an increasing tendency to social discontent and criticism of the existing order, and the war, with its emergency measures for government control over industry, and its political upheavals, gave a great stimulus to socialistic agitation. It has been a great time for social reformers and revolutionaries of every type. They have been busy everywhere, and governments have been embarrassed and the recovery of industry has been retarded by their activities.

Complexity of Modern Society

Moreover, we have to recognize that as population increases and relations become more complex, our social problems in some respects become more difficult. People must live more closely together, they must have more to do with each other, and they must be more dependent upon each other. I think most of our troubles are due to the fact that we have

developed the industrial organization beyond the understanding of the common man. He doesn't understand his own part in it, he doesn't understand the benefits he derives from it, he doesn't know much about the economic laws which govern it and which control at last the distribution of benefits. The primitive man knew that the harder he worked the more he would have, and when a man exchanged work with a neighbor he had the whole transaction under his eyes; but when a man works with thousands of others for a great corporation, which sells its products in distant markets, he doesn't see his relationship with other workers, or any definite relationship between what he does and what he gets; he doesn't know whether he is getting a fair share of the industrial results or not, and he suspects not.

The modern industrial system is essentially co-operative, but you cannot have effective cooperation without understanding. You cannot expect masses of people to be loyal to something they do not understand, and because people do not see the industrial organization as a whole we have the tendency for society to break up into groups and blocs and unions and organizations of one kind and another, many of whom are trying to advance their own interests at the expense of society as a whole, with the result that the benefits of organization are in large degree lost.

Now, of course, we cannot do away with the modern industrial organization. The population of this country today could not be supported in the state of comfort to which it is accustomed without the modern, specialized organization. In some way we must bring the people to a better understanding of the economic laws which control the system and

which, if allowed free play, will afford protection to every interest. The highly complicated system simply will not work, it will break down, unless there is a broader understanding of the fundamental principles upon which it is based.

Bolshevism in Russia and Elsewhere

The extremity of social disorganization has been seen in Russia, where has been enacted the greatest tragedy in the history of the world. H. G. Wells, the British writer, came back from Russia, profoundly pessimistic about the future of civilization in western Europe and in the United States. He says that it is a race between education and catastrophe, that what happened there will happen everywhere unless there is a development of the capacity of people to work together and understand each other.

The former government of Russia was a bad government, arbitrary, inefficient and corrupt, and it is easy to understand that the people might revolt against it; but the revolt was not simply against the government; we have to recognize that in its final form the revolution in Russia was against what is called the capitalistic system, or in other words, the private ownership of property and the private direction of industry, and we cannot ignore the fact that this movement has had the sympathy of great bodies of people in all countries, including the United States.

It is true that the results of the revolution are so calamitous in Russia as to give a check to revolutionary tendencies in other countries. The great body of the people in the other countries of Europe have been warned against Bolshevism, and yet the economic principles of Bolshevism are influencing

public opinion more or less everywhere.

In Great Britain the Labor Party is now the regular opposition party, and a few months ago it formally proposed in Parliament a resolution which after setting forth the unemployment existing in England and other deplorable conditions resulting from the disorganized state of world trade, proceeded to declare that these afforded proof that the capitalistic system of industry had broken down, and that the government of England should now proceed to gradually take over all the industries of the country and operate them in the future.

And that resolution was seriously debated through two sessions of the British Parliament.

Furthermore, if we care for our institutions we cannot afford to ignore the fact that agitation to the same purpose is being carried on with fanatical fervor all over this country, and that thousands of people who would not give their approval to such extreme policies are helping them along by favoring the continual extension of governmental activities in business affairs.

Economic Fallacies

The motive behind all this agitation is the desire to establish equality. The social struggles of the past have been for political equality, to secure for all men equal voice in the government and that has been accomplished, but it does not give people what they want. Now the demand is for equality in possessions, equality in incomes, equality in the management of industrial affairs. It is important to understand whither we are tending.

There is no argument against the aspirations of men for better social conditions. The innate urge to development and progress which has raised man

up from lowly beginnings is divinely given, but it is not always divinely directed.

The radical ideas of the time result from certain economic fallacies that are commonly accepted, and if we are going to successfully defend the existing order these fallacies must be exposed. One of the chief of these fallacies relates to the employment and service of private capital. Men read about vast sums of wealth belonging to individuals, and think of these sums as devoted exclusively to the owners. They do not grasp the fact that wealth employed in production for the public market is rendering service to the entire community, no matter who owns it.

The whole radical argument is based upon the theory that all of the wealth employed in industry benefits nobody but the owners. It proceeds upon the theory that all of the increasing supply of goods and services resulting from the investment of private capital is absorbed and consumed by the capitalists. It is like claiming that nobody ever got any benefit from the development of the steam engine but the owners of steam engines, or that nobody ever was benefited by the construction of railroads but the persons who had railroad investments, or that nobody had gained by the development of the textile industries, but the owners of stock in the mills, and so on around the circle of the industries. Of course, the theory only needs to be stated for the fallacy to be apparent. The man who works for wages, and who spends them as fast as he receives them, is benefited by every investment of capital which increases and cheapens the supply of the things for which his wages are spent.

The Service of Capital

It is a fundamental truth that all the productive property of the country, although privately owned, is part of the equipment of society, by which its wants are supplied. It is doing the same work that it would do if it was owned by the state, and probably doing it more effectively.

The people who advocate Government ownership of the railroads and other industries usually have in mind that the public will thereby avoid paying profits to the owners. They overlook the fact that if there were no surplus earnings, nothing left over after paying expenses, there would be no capital for the improvement and enlargement of these services and no industrial progress.

If we had a socialist regime, with all the industries owned by the Government, all this equipment would have to be provided by reserving capital from distribution, just as now. Mr. Ogden Armour, a few years ago before a Committee of Congress, made the statement that approximately 88 per cent of all the profits of the Armour business from its beginning had been left in the business for its development. If the Government had owned the business all of that capital would have had to be supplied in order to render the services to the community that have been rendered, and nobody can tell of any better way to supply it than by means of a charge upon the services.

The real measure of the distribution of the proceeds of industry is not by ownership or income but by consumption. That portion of an individual's income which is turned back into productive employment is devoted to a social purpose, just as much as though it was employed for that purpose

by the government. It is only what a man consumes that is devoted to himself or withdrawn from the common supply.

The final test between private ownership and private management of business and public ownership and management is to be found in results. The object of all business is to supply the wants of the population; which policy produces the largest supply?

The Merits of Individualism

The progress of the past has been accomplished under the individualistic system. The theory of this system is that every one shall have for his own, as nearly as may be, that which results from his own efforts. The merit is that it holds out over the entire population an inducement that appeals to every person, and that inspires him to labor, to produce and to accumulate by rendering those services to the community which the community is willing to pay for. It is a system calculated to stimulate the initiative, call out the energies and develop the ability of each individual. He is free as to his undertakings; there are no restrictions except that he must seek his own gains by activities that are serviceable to the community as a whole, and he is inspired to labor, not simply by the desire for personal advantage, but by the desire to provide for loved ones, by the impulse to self-expression, to realize and develop his natural abilities, and by the ambition to achieve, to win distinction and to render service. In short, the system of individual freedom and of reward according to achievement makes use of every possible motive to stimulate individual effort and develop individual capacity. It does not promise equality. Unless there is equality in production, in

service, in effort, in resolution and in self-denial, why should there be equality in the division of results?

The justification of individualism, however, is not merely in what it allows to the superior individual, but in the results that inure to all. It is in the interest of all to secure the most effective organization, the most effective management and the largest possible production. These cannot be had by adopting the fiction that all have equal ability for any position, or by any other system than that which judges men by their individual qualifications.

The Necessity for Organization

The modern world cannot get along without organization and leadership. There must be executive authority to give direction to industry. Whatever the system of ownership may be, there must be men who give instructions and men to obey instructions. How are the leaders to be selected? Shall it be by lot, by political methods, by military despotism?

In the business world today the positions of leadership and responsibility are held by men who have been advanced to them under a system of competition and elimination. The test of fitness is an economic test, a test of ability to produce economic results—and the fact that as a rule the men in positions of responsibility have come up from the ranks is proof that the system is fundamentally sound and effective. Society cannot afford to change from the economic test of leadership to any arbitrary or political system of selection. There would be a lessening of incentive throughout the economic organization, a loss of ability in management and a loss of productivity everywhere. These results are quickly

seen in any organization where favoritism or the strict rule of seniority governs promotions.

The Significance of Ownership

The chief significance of ownership is in the degree of control that it gives over property and business, and experience has demonstrated that private ownership is favorable to the largest production. Ownership, before the modern systems of taxation were devised, gave control over income, and men who have had the ability to acquire ownership of industries and to make them successful usually have desired to devote the incomes largely to the improvement and enlargement of them, in order to supply increasing public demands. The industries of this country have been developed and built up mainly by such application of income. This increased supply of capital has created an increased demand for labor on the one hand, and on the other hand has furnished an increased supply of the comforts of life for the population. The fact that the available supply of capital has increased faster than the labor supply has been a constant influence in increasing the wage rate, and the increasing use of capital in production has been the most potent agency for increasing real wages and for raising the standard of living for the entire population.

The Service of Leadership

In what way is it likely that surplus incomes from the industries could be more effectively used to advance the common welfare than by allowing the owners, under whose direction these industries have been successful, to use them for enlarging produc-

tion? At what stage of the careers of Thomas A. Edison, Henry Ford or Andrew Carnegie would it have been to the advantage of the public to have had the government step into their establishments and say that henceforth all surplus income should be diverted into the public treasury, to be disbursed by officials at Washington? Men of this type, who have demonstrated their capacity for industrial leadership, are the men who carry society forward; they are the men upon whom dependence must be placed for such an increasing capacity in the industries as will meet the needs of a growing population, and at the same time satisfy the aspirations of the people for a rising standard of living. To take out of the hands of the leaders in industry the surplus incomes which they would invest for industrial development is to take from them the very means by which they do their work.

Criticism of the Existing Order

The critics of the existing order base their attacks mainly upon what it fails to accomplish. They say that although it has enormously increased the capacity for production, it has not abolished poverty, it has not provided decent living conditions for all the people, it has not furnished steady employment for all the people, it has not stabilized industry or been able to prevent recurring periods of depression and disaster.

It is true that social and economic conditions are by no means ideal, but it will be found that most of the conditions at which criticism is directed are not properly chargeable to the industrial system, but result from the degree of individual liberty that the system permits. Knowing human nature as we do

what right have we to expect human society to be perfect?

A System of Individual Liberty

The great feature of the existing order is individual liberty. The individual is free to order his own life and affairs as he likes, so long as he does not interfere with rights of others. He may be indolent or industrious, thrifty or profligate, venturesome or cautious in business affairs, as he pleases. Almost without exception the persons in every breadline have seen better days, and need not have been there if they had observed the common dictates of prudence or the rules of life which other people have felt under obligations to follow.

Each person is expected to find his own place in the industrial organization. It is up to him to determine how he shall make himself useful, and there is no place for him except as he can make himself useful. There is no overhead authority to tell him where he shall go, or what he shall do, or what he shall get for doing it. That is all left to mutual agreement, and it is true that people have trouble about working together harmoniously in all relations.

We have costly strikes which in some instances seriously interfere with industry, and inflict not only heavy losses upon the community but suffering upon many homes, because men are at liberty to refuse to cooperate except upon terms agreeable. The right of men to disagree is one of the most common causes of industrial disorder. We cannot have the benefits and privileges of liberty without the friction that arises from conflicting views and purposes.

Such irregularity as exists in industry, including periods of depression and unemployment and unbal-

anced prices, is incidental to this state of individual freedom. Without constraint it is inevitable that more or less confusion will occur. Moreover, there is a psychology of the crowd, the tendency of masses to swing to extremes. The business situation is what the great body of the people in the management of their private affairs, make it to be, and when there is a general tendency to overbuy and overborrow, it is inevitable that a reaction will follow.

In short, we live under a regime of liberty, with the privilege of judgment and action. We must either assume the responsibility of managing our own affairs and accept the incidental confusion that results, or we must create an overhead authority to run the whole organization like a great machine. Wouldn't we rather take the responsibility for our mistakes than be moved about like automats and have every act of our lives regulated by the government?

The greatest thing in this world is liberty—freedom to exercise and develop our powers—freedom to make mistakes, for we learn by our mistakes. The race has progressed through its experiences and by its experiences. We want the free play for all our faculties; we want the incentives of life, the opportunities of life and the experiences of life, for by these come the development of character. The individual who has been shielded from childhood from every strain and responsibility has missed the meaning and discipline of life.

Liberty and Progress

There are people who look upon business life as a sort of a routine performance, doing the same thing

over and over. They think that running a railroad is just moving a given number of trains back and forth daily. They don't see any reason why the government should not run the railroads. Their conception of business is mere repetition. These are the same people who are always excited over a showing of large profits, because they think large profits are proof of high prices; whereas in all really notable instances, large profits have been due to low costs, low prices and large volume of business. Every great success in the business world is based upon notable service.

There is a fascination about the idea of having all industry and all trade and services systematized and regulated from above, but it is a delusive idea. It rests upon the idea of routine, regularity. It conceives of industry as static, whereas it is changing all the time. No business can remain successful unless the management is progressive. It is true that there is much duplication of effort, much apparently lost motion, but that is more than counterbalanced by the value of the incentive given to individual effort, and the progress achieved by having all the people working at will upon our problems.

Let anyone go about this country, see the variety of industries, take account of the changes being made, the new ideas being introduced, the multitude of experiments being tried, and conceive of an effort to direct all of these activities from Washington. It isn't possible for the government to do all the thinking for the people. It will do well if it keeps out of the way.

The Illusion of Governmental Wisdom

The government of a great country seems to embody so much power that illusions about what it can do are quite natural; but a government is no wiser than the individuals who compose it. In the last analysis the proposal that the government shall exercise its authority in a given matter means that a given individual, or a few individuals, shall have that authority, for which they may or may not have suitable qualifications. The kind of ability that makes a man successful in political contests does not necessarily make a man successful as an administrator of business affairs.

The Political Atmosphere

Moreover, the very atmosphere in which government functionaries live is unfavorable to the rendering of judgments upon economic considerations. It is a political atmosphere. The whole situation is sicklied o'er with—the pale—or red—hue of politics. In an address before the Canadian Bar Association a few days ago, the Secretary of State, Mr. Hughes, said of one of the embarrassments of his office.

"those in charge of foreign affairs do not dare to undertake to negotiate agreements because they know that in the presence of attack inspired by political or partisan motives the necessary adjustment could not receive approval of the legislative branch and would evoke such an acrimonious controversy on both sides that matters would be made worse instead of better."

In short, every act of a political administration is viewed by its adversaries, and is likely to be considered by officials, first of all as to its probable effect upon votes. Not what will be the economic effect,

but what is likely to be the effect upon the next election. The power of the political demagogue to confuse and mislead great numbers of people is well known, and every extension of the functions of government tends to extend his mischievous influence over the business community and over the everyday lives of the people. If the present trend continues there soon will be no place for the specialist and experienced business executive in the affairs of the country.

The great body of legislators and officials undoubtedly are honest and sincere men, but the conditions of government administration are unfavorable to economical and progressive management of business affairs.

A Pending Investigation

We have pending at the present time an official investigation into the propriety of permitting the merger of two great meat-packing concerns in Chicago. The merger actually took place months ago. It was the result of the very heavy losses sustained by the packing industry over several years, and was instrumental in raising new capital and saving the packing industry and livestock industry from a crisis that might have had far-reaching effects. This is a striking illustration of the utter lack of sympathetic and practical relationship between the Government and business. I do not say this in criticism of the official who is causing the investigation to be made, for he doubtless feels that he has a duty laid upon him, but it is unfortunate that he has any responsibility in the matter. Failure to carry through the merger would have been a calamity, and in addition to all the other uncertainties that had to be con-

sidered in trying to avoid that calamity, was the question of what a government official might think it his duty to do in the premises.

Government and the Railroads

Every venture that the Government makes in the field of business shows this inaptitude for such affairs. It took over the railroads for operation during the war, and it may be allowed that an emergency existed in the affairs of the Government which justified the action. The Government undoubtedly possessed powers of coordination which the companies did not have, but if there were any resulting economies they were swamped in the whirlpool of losses. The Government administration ran behind in the sum of \$1,800,000,000, which the taxpayers of the country are obliged to make good. It is true that this was not entirely an economic loss, for it was due in part to failure to increase charges, but in this it showed the characteristic weakness of governments, in failing to do business on business principles where public opposition must be faced.

An important part of the excess expenditure was pure waste in dealing with the labor question. The number of employes on the payrolls steadily increased under Federal control, and after the roads were returned to private control the number was steadily decreased until in the last six months of 1922 the railroads were handling as much traffic with four men as the Federal administration was handling with five. This tendency to over-man the roads has been still more pronounced with the government-owned roads of Europe. It may be added in this connection that in the last two years the Canadian National Railways have lost \$132,914,123, which the taxpayers

of Canada have the privilege of making up.

Government regulation of railroads has illustrated the tendency of every such function to become involved in politics. It does not stop with regulation by the Commission; the railroads are an issue in politics continually, and men make political careers by riding the railroad issue. The public has been misled by such agitation until there is grave danger that government ownership may become unavoidable, through the refusal of private investors to supply the capital continually required for the development of railroad facilities. The right of exercising initiative and judgment has been in great degree taken from railroad executives.

The Shipping Adventure

The United States adventure in the shipping field affords abundant material for study. Of course nobody would charge the entire loss on the investment in ships to mismanagement. The ships were built as a war measure, and if the Government had proceeded to get out of the shipping business promptly at the end of the war, the loss to that time would be properly chargeable to the war account. The ships might have been sold at good prices, and a large part of the loss which is now faced thus averted. The total investment in ships was about \$3,500,000,000. The aggregate amount received upon sales is not given, but the last report states that on June 30, 1922, the Government owned 1,275 steel ships, which cost about \$2,500,000,000. It owns about the same number today, of which about 900 are laid up and a recent Washington dispatch says that the aggregate value of the entire fleet is estimated at \$226,733,315. The shipping operations have been running behind

at the rate of about \$50,000,000 per year. The characteristic official view is presented by one of the Commissioners in a recent speech, in which, replying to a statement that the Government ships were carrying grain at a loss, he said: "Of course we are carrying grain at a loss, but the loss goes back to the American farmer." The same theory upon which the Government-managed railroads carried freight at a loss! Freights were kept down to the shippers, but charged up to the taxpayers, who could be reached by a different kind of a levy. Whatever the need may be for aid to any class of our people, it should be provided directly and openly by act of Congress and not by the discretion of executive officials who are managing public utilities. Moreover, the maintenance of a government fleet is a very expensive method of granting a subsidy to shippers.

Of course the problem of utilizing the ships is made far more difficult by the terms of the Navigation Act, through which Congress has laid regulations upon all American shipping which handicap it in competition with the ships of other countries. In view of the past record of the Government fleet and in face of the Navigation Act, it does not seem out of place to suggest that the remainder of the fleet be placed in charge of the navigating officer who directed the course of the flotilla of destroyers which landed on the California coast a few weeks ago, with instructions to do his worst.

The Postal Service, Etc.

The Postal service is the reliance of people who advocate government operations. The postal service has a great many faithful and capable men, but the management does not undergo the test of competi-

tion. Nobody claims that the charges are scientifically adjusted to the several branches of the service. It is notorious that some branches lose money and others make a profit, which means again that one class of patrons pay for services rendered to others. Nobody knows what the postal service costs. The Government reports don't show, for a large part of the expenses are paid from outside the postal appropriations. There is no charge to the postal service for the use of the government buildings in which post offices are located. The cost of fuel, lights and janitor service are not charged in postal expenses. Government business is not under the necessity of paying its way.

The Government navy yards, arsenals, gun works, printing offices and mints, are none of them model industrial establishments, and this is not through the fault of the officials in charge, but through the inherent conditions of Government administration. None of them could make their expenses in competition with privately owned rivals. Modern machinery has been deliberately kept out of government establishments by acts of Congress in order to keep more employees on the payrolls.

The separation of the executive functions of the Government from the law-making function is a fundamental defect when the management of business is attempted. There is a division of authority and responsibility that is fatal to efficiency. The lack of continuity of management and policies is another fundamental defect.

A Revulsion of Sentiment in Europe

In all the countries of Europe in which socialism ran riot in the years following the war there has been

a revulsion of sentiment, as a result of the demonstration that government-management is not economical management. Even Russia, under the pressure of necessity, is going back to private management.

In this country we have the demand for the Government to take a more active part in the management of the Federal Reserve banks, and the danger of political influence is a menace to the system, but in Europe, where the central banks have been made subservient to government policies of inflation, the central banks are being removed from government influence. In Austria, under the League-of-Nations plan for reorganizing the monetary system, the bank of issue is made wholly independent of the government, and in Germany a similar reform is proposed. Even in Russia, a new currency has been provided, issued by the State bank, with the pledge that issues will be solely upon banking principles. Everywhere it is being recognized that the political agencies are unfitted to deal with the monetary system.

Commissions Should Be Judicial Bodies

Propositions for government regulation of industries are more plausible and insinuating than for government ownership and management. There are certain functions of supervision and regulation which the government must perform. In the case of natural monopolies, such as the railroads and certain public utilities, where competition is impracticable and undesirable, there must be resort to regulation by public agencies, but these agencies should be as strictly as possible of a judicial character. Their purpose should be to maintain just and equitable relations between the privately owned agencies and the public whom

they serve. Experience has demonstrated how difficult it is for these politically created bodies to maintain this position. Theoretically these bodies are supposed to have information not available to the general public, to know the authentic facts, and to not only act without prejudice or favor but to inform the public and correct the misrepresentations which so often influence public opinion. Too often, however, their findings, if opposed to the popular view, are overwhelmed by a storm of protest and clamor, and it is exceedingly difficult for public officials to withstand the pressure of public criticism. It is commonly the case that the persons named for membership on public commissions have been more or less active in politics, and are looking to political advancement. It is a noteworthy fact that at the very time the meat-packing industry was under investigation several members of the commission conducting the investigation were active candidates for higher political offices in the states of their residence. It is not in human nature to be judicially minded under such conditions.

The Passion for Authority

The tendency of these supervisory commissions is to become prosecuting functionaries, looking for opportunities to justify their existence in a sensational way, rather than by quietly working upon the problems of economic organization and development. There is also an inevitable tendency for all bureaucratic supervision over business to reach out for more power, and to endeavor to reduce business activities to an approved routine. There is an example of it in the ruling of the Federal Trade Commission that a company producing gasoline must not install gaso-

line pumps with retail dealers free of charge. The Supreme Court disposed of that ruling, as it has of many others of the same kind, for which let us be truly grateful.

Dr. Charles W. Eliot, President Emeritus of Harvard University, a few days ago, in an article upon Education, gave warning that there was too great a tendency to standardize education, and he added that there was too great a tendency to standardize industry. The idea embodied in standardization, regularity, uniformity, has its place, but it is out of its place whenever it restrains the free play of initiative, originality and the competitive impulse. We don't want the methods of business standardized by government officials, save as restraint may be necessary to prevent deception and fraud. We want the free play of all the keen minds in the business field.

Necessary Regulation

I repeat that this is no argument against government supervision and regulation in the limited number of cases where competition is impracticable, or in cases of great emergency, where the competitive forces are temporarily restrained. Undoubtedly as society becomes more complex it is necessary to resort more and more to regulative agencies. All the more reason, therefore, why these agencies should be cautiously developed, and guarded against impatient and misinformed clamor. They should not be overloaded with functions. They should not be subjected to pressure which they cannot be expected to withstand. The exercise of supervisory authority over business is in large degree experimental, and depends for success upon the development of a just sense of the true public interest.

Natural Regulatory Forces

The clamor for official regulation of business is due in large part to a lack of understanding of the effectiveness of the natural economic forces. There are few lines of business in which these forces are not amply sufficient to protect the public. In normal times there are few instances of unusual profits where competition does not quickly result, or other corrective influences come into play. The interference of government officials where natural forces are likely to be effective in due course, often has the effect of nullifying these influences and of throwing the situation into greater confusion.

The modern business organization is a highly developed system of voluntary cooperation. We have all become specialists—exchanging goods and services with each other, and the system is kept in balance by the free movement of prices. The workers are distributed in the industries, and production is directed automatically, by the natural movement of prices. If the production of any commodity is in excess of demand, the price naturally falls and industry shifts to other lines of effort. This regulation is more accurate and effective than any governmental regulation possibly could be. If government officials were all-wise, the best they could do would be to adapt production to demand—and that is what the free-play of prices actually does.

The only alternative to the free-play of prices as the regulator of production is the system that was tried in Russia, of having the government take complete charge of industry, determine how much of everything shall be produced, how much each person shall have as his share, assign every man to his job,

and station soldiers to see that the orders are carried out.

A new, high-sounding, phrase has been put into circulation of late, i. e., that "Production should be for use and not for profit." The supporting argument is that the Government should determine what should be produced, instead of having the people determine it by their purchases in the markets. There are only two ways of bringing production and consumption together: One is by free play of the law of supply and demand, and the other is by an overhead authority, and every time you try to employ the latter you create a precedent which leads to endless favoritism and strife.

The Coal Problem

One of the chief subjects of controversy in recent years has been coal. It has been said that the law of supply and demand does not function in the case of coal, but in fact all the trouble has been because the law of supply and demand did function. When production has been artificially curtailed prices have risen. No way ever has been found to prevent prices from rising when the supply of a commodity is not enough to go around. The scarcity of coal with rising prices has always been due to strikes, either in the mines or in transportation service. I do not propose any remedy for strikes, but I do say that neither Government ownership nor Government operation offers any remedy for strikes. The problems presented by the coal situation are highly complicated, and I will not say that the Government might not, by wise action, aid in their solution, but I am quite sure that up to this time it has added more complications than it has eliminated. Moreover, of

all the impracticable schemes that have been proposed, that of having the Government take over the coal properties, which would mean the purchase, by Government officials, of all the coal reserves of the country—enough, according to official estimates, to last 6,000 years—is surely the most visionary, but it is not without considerable support.

The Duty of Business Men

It is for the business men of the country, who have been alarmed by the tendency of legislation to restrict and hamper individual initiative and to exert a leveling pressure upon the whole body of society, to make their opinions known and their influence felt. It may as well be added, however, that they will not be able to exert much influence unless their efforts are directed by the broad principle, that the public welfare should be the first consideration all of the time, and that they want no special policies for their own advantage. It is not uncommon to hear a business man declaiming that the government should stop interfering with business, at the same time clamoring that it should regulate some other business than his own, or pleading that governmental authority be used in some other way to his advantage. There must be genuine faith in the efficacy of natural forces to regulate the business situation and willingness to let natural forces have their way.

The Public Interest Supreme

Finally, there is wanted on both sides of this question a broad appreciation of the fact that the activities of business are all "affected of a public interest." They are not merely private activities.

The fundamental purpose of all business, the purpose which gives it the chief claim to consideration and protection, is that of serving the wants and needs of the population. The argument against excessive governmental interference is that instead of serving the public interest, it hampers this necessary service and makes it more costly; but this plea cannot be urged effectively by business men unless they show an appreciation of the obligations which it lays upon them.

The controversies that arise out of the relations of business with the public are not inherently irreconcilable. They do not present a case where one must enlist for the war on one side or the other. In every instance there is a right relationship between business and the public which is best for both, and which both should be equally eager to find.

22982

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